

**Risk Profile and Scope Memorandum Template;  
Sample Risk Profile and Scope Memorandum**

# RISK PROFILE AND SCOPE MEMORANDUM

## COMPLIANCE EXAMINATION

### Pre-Examination Planning Memorandum Data Sheet

Name of Institution:.....  
City, State:.....  
Cert. No.....  
# of Open Offices (including Main Office).....  
SHARP Examination No.....  
Total Assets (xx/xx/xxxx).....  
Field Office of Institution.....  
Field Office Performing Examination.....  
Examiner-In-Charge (Current Examination).....

## LAST EXAMINATION INFORMATION

Type	PROC	Date	Rating	# Examiners	Hours	EIC
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## OUTSTANDING ENFORCEMENT ACTION INFORMATION

EA Type	Division	Issue Date	Supervisory Area
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## CURRENT EXAMINATION INFORMATION

PEP Start Date.....  
PEP Completion Date.....  
Anticipated Examination Date.....  
Assigned Number of Examiners.....  
Anticipated Compliance Hours.....  
Anticipated CRA Hours.....  
Proposed Number of Community Contacts to be Performed..  
Consumer Complaints received since the previous  
Examination?.....  
Has data requested from the Institution been received?..  
Is HMDA Applicable?.....

Current SAER Exam Comment:

## REPORT OF CONDITION AND INCOME

Date.....  
Net Loans.....  
Gross Loans.....

## BREAK-DOWN OF LOAN PORTFOLIO

Loan Type	Dollar Volume	% of Portfolio
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Consumer Loans

Commercial Loans  
Farm Loans  
Multi-Family Loans  
Residential Loans  
Other

**ASSET GROWTH**

Call Date:  
Total Assets:

Call Date:  
Total Assets:

**DEPOSIT INFORMATION**

**Non-Interest**

**Interest Bearing**

**SUMMARY OF THE RISK PROFILE OF THE INSTITUTION**

**Risk Profile Matrix**

Bank Name City, State	<u>CMS Elements</u>		
	Oversight	Program	Audit
Operational Areas:			
Lending			
Deposits			
Insurance Sales			
Investment Sales			
(Other)			
Other Issues:			
( )			
( )			

(L) = Low Risk; (M) = Moderate Risk; (H) = High Risk

**CMS Elements:**

**Oversight**

**Program**

**Audit**

**Operational Areas:**

**Lending**

**Deposits**

**Insurance Sales**

**Investment Sales**

**Other Products or Issues**

## **SCOPE OF THE EXAMINATION**

**Compliance Management System**

**Community Reinvestment Act (CRA)**

**Fair Lending Review**

**Complaints**

**Miscellaneous**

## **ISSUES TO BE INVESTIGATED OR AREAS TO BE TARGETED**

All issues of special concern discussed under the two previous sections will be targeted. In addition, the following table indicates the specific regulations that will and will not be subject to transactional testing (TT) or spot-checking (SC).

AREA	Testing (No/TT/SC) LX   CX		Comments
LENDING			
Truth In Lending			
Equal Credit Opportunity Act			
Fair Housing Act			
Home Mortgage Disclosure Act			
Flood Insurance			
Real Estate Settlement Procedures Act			
Homeownership Counseling			
Homeowners Protection Act			
Preservation of Consumer Claims and Defenses			
Credit Practices Rule			
Fair Debt Collection Practices Act			
Consumer Leasing			

<b>DEPOSITS</b>			
Truth In Savings			
Electronic Funds Transfer			
Expedited Funds Availability, including Check 21			
Interest on Deposits			

OTHER PRODUCTS			
Retail Insurance/ Annuities Sales			
Retail Investment Sales			
Government Securities			

PRIVACY/CONSUMER INFORMATION/GENERAL REQUIREMENTS			
Right to Financial Privacy Act			
Privacy of Consumer Financial Info			
Fair Credit Reporting			
Children's On-line Privacy Protection			
CAN SPAM			
Telephone Consumer Protection			
Electronic Banking, including E-Sign			
Advertising of Membership			
Unfair or Deceptive Acts or Practices			

COMMUNITY REINVESTMENT ACT			
CRA Technical Requirements			
Branch Closings			
Interstate Banking and Branching			

## **SAMPLE RISK PROFILE & SCOPE MEMORANDUM**

The following section includes a sample Risk Profile & Scope Memorandum as it would appear at the conclusion of the examination. As such, there are comments included that were added by the EIC after the on-site portion of the examination commenced.

**BANK OF ANYTOWN  
RISK PROFILE &  
SCOPE MEMORANDUM**  
Examination Dated - March 14, 2006

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**I. Summary of the risk profile of the institution**

Bank/Cert: Bank of Anytown / #####  
 Assets/Facilities: \$50 million / 3 locations  
 Ownership: Johnson BHC, Anytown, Anystate  
 Affiliates: Second Savings Bank, Otherville, Anystate  
 Management: Michele J. Smith, President/CEO; and  
 Douglas F. Grand, VP/Compliance Officer  
 Previous Ratings: 122/2 Compliance (1-15-04)  
 "Satisfactory" CRA (1-20-02)  
 22121/2 CAMELS (6-30-05)  
 Enforcement Actions: None

**Risk Profile Matrix**

Bank of Anytown Anytown, Anystate	CMS Elements		
	Oversight	Program	Audit
Operational Areas:			
Lending	L	H	M
Deposits	L	M	M
Insurance Sales	L	L	M
Investment Sales	x	x	x
(Other)			
Other Issues:			
Privacy	L	L	M
( )			

(L) = Low Risk; (M) = Moderate Risk; (H) = High Risk

**CMS Elements:**

**Oversight** - Board and Management Oversight demonstrates a low level of risk.

- ⊕ President Smith and Compliance Officer Grand are knowledgeable, committed to maintaining a strong CMS, and demonstrate a positive attitude toward consumer compliance issues. Prior examinations indicated a willingness to implement corrective action.
- ⊕ The Board recognizes that it has ultimate responsibility for compliance and reviews the results of the FDIC compliance exams promptly after receiving the Reports.
- ⊕ No changes in bank strategy, ownership, the directorate, or management since the prior exam and no significant changes in key personnel.
- ⊕ Commitment of resources dedicated to compliance, and the level of authority granted to President Smith and Compliance Officer Grand appear appropriate.



All bank officers have multiple responsibilities, so time available for compliance issues is limited and management has opted to keep the CMS as informal as possible in order to reduce the time spent generating reports and updating policies. This approach has not adversely affected the institution's performance, but some concerns are evident.

- ⊖ The Board of Directors minutes contain no references to compliance, other than reflecting that the last compliance examination results and recommendations were discussed.
- ⊖ The Board has received no compliance-related training.

The low level of Board involvement does not currently create any significant risk, given the strong management oversight. However, some additional reporting and general training would strengthen Board oversight and better prepare them to consider compliance-related business risks.

**Program** - Program demonstrates a moderate level of risk.

- ⊕ Monitoring is performed in several areas. All consumer-related loan documentation is generated at the main office and is reviewed by Compliance Officer Grand or loan secretary Janet Applegate prior to being delivered to the customer. The bank maintains only cursory documentation of the findings of loan reviews, but discussions with Ms. Applegate revealed a strong understanding of the relevant regulations. Monitoring for compliance with Reg CC and Interest on Deposits is performed by Cashier Donna Reed and by the head tellers at each facility. A record of identified and corrected errors is maintained and reviewed with the appropriate staff monthly.
- ⊕ Discussions with President Smith and Compliance Officer Grand revealed that each has recently received compliance training, and that training of the bank's staff is conducted on a regularly recurring basis. Although no supporting documentation of training was available, discussions with various personnel in the bank revealed that the bank's approach to training has been effective.

Primary areas of concern identified during the exam are related to the bank's policies and internal monitoring efforts and involve, to varying degrees, all operational areas.

- ⊖ The bank's compliance program is currently a combination of written and unwritten policies. Although Compliance Officer Grand appears to be able to communicate to the bank's staff all the regulatory requirements related to the bank's product offering, examiners have some continuity concerns in the event that Mr. Grand should leave the bank.
- ⊖ Discussions with management revealed that some compliance procedures differ among the various locations, since the staff at the branches previously worked for a different institution.
- ⊖ No monitoring of advertising, TIS, or Privacy is performed. In the absence of internal or external audits as a compensating factor, the lack of monitoring in these areas is considered a deficiency.

**Audit** – The audit function demonstrates a moderate level of risk.

Compliance Officer Grand stated that internal audit procedures for compliance had been established, however as of this examination, they had not been implemented for any area other than flood insurance. Examiner review of the proposed audit structure suggested that the audit program is limited in scope, but seems to adequately address the areas of highest risk. Of particular concern are the areas which are not currently subject to internal monitoring, as well as

those areas with violations at this and prior exams. Examiners urged the bank to implement the audit function as soon as possible for these areas.

## **Operational Areas**

### **Lending**

- Significant violations were noted in the lending area at the previous examination.
- The bank's level of residential lending since the previous exam has increased substantially due to interest rate-driven refinance activity.
- Lack of procedural uniformity among all facilities could result in loan-related violations.
- The bank's trade area includes special flood hazard areas.

### **Deposits**

- No history of significant violations in this area.
- Very little staff turnover.
- Discussions with personnel indicate effective training.
- No new products or significant software changes since LX.

### **Insurance Sales**

- No history of significant violations.
- The bank does not sell any products other than credit life and disability insurance. Discussions with management and loan officers indicate a full understanding of the notice requirements.

### **Investment Sales**

- None

### **Other Products or Issues**

- The bank does not share customer information outside of the Privacy exceptions.

## **II. Scope of the examination**

A joint Compliance/CRA examination is scheduled to begin its on-site activities on March 14<sup>th</sup> and conclude the week of March 21<sup>st</sup>. The on-site review will occur at the bank's main facility at 123 Main Street, Anytown, Anystate. Due to internal control issues to be investigated, visits will be conducted to two branches (of ten) that were acquired from another institution since the last examination. The visits will review knowledge of and adherence to the bank's compliance-related procedures.

The previous examination noted significant violations of TIL, ECOA, Flood Insurance, and EFT, and isolated violations of Reg CC. Program deficiencies noted were policies that had not been updated to address new products, and lack of internal monitoring and/or audit procedures.

### **Compliance Management System**

- Since the Board of Directors minutes reflected little information about the board's involvement in compliance, more discussion will be conducted with management to determine the board's participation in compliance decisions.
- The weakness noted by the risk management examiners in the internal controls between the branches will be investigated from the compliance point of view. The RM examiners found

that some branches, acquired since the last examination, were not yet following a number of the bank's procedures.

- In-depth discussions with appropriate personnel, such as loan officers and new accounts representatives, will be held to determine understanding of new regulatory requirements (Home Ownership Counseling, Privacy, NDIP, COPPA, and HPA).

#### Community Reinvestment Act (CRA)

A CRA evaluation will be performed in conjunction with this compliance examination. The evaluation will be based on residential and commercial lending. The bank has two assessment areas, consisting of six middle-income census tracts. The bank will be evaluated as a "small institution." The bank did not elect to have its investments and services considered as part of its CRA evaluation. The bank was rated a "Satisfactory" at the prior CRA evaluation. Two community contacts will be conducted.

#### Fair Lending Review

The fair lending review will follow the FFIEC Interagency Fair Lending Procedures. Refer to the Fair Lending Memorandum for a description of the scope of review, the procedures followed and the conclusions reached.

#### Complaints

The bank has received no written complaints since the prior examination, nor did the FDIC receive any complaints about the bank.

#### Staffing and Projected Hours

The anticipated hours for review of the CMS are \_\_\_\_, for CRA are \_\_\_\_, and for Fair Lending are \_\_\_\_ (including \_\_\_\_ hours of training). Three examiners should be sufficient to perform the exam. EIC Mary Richards will perform the bulk of the CMS analysis. Examiner David Jones will perform the CRA evaluation. Assistant Examiner Barbara Heck will review Fair Lending and assist with CMS and/or CRA as necessary during the examination.

#### Miscellaneous

- SHARP Exam Number - #####

### III. Issues to be Investigated or Areas to be Targeted

All issues of special concern discussed under the two previous sections will be targeted. In addition, the following table indicates the specific regulations that will and will not be subject to transactional testing (TT) or spot-checking (SC).

AREA	Testing (No/TT/SC) LX   CX	Comments
<b>LENDING</b>		
Truth In Lending	YES	TT Significant violations noted at LX involving rescission forms. CX - Discussion with management not entirely reassuring. Will review 3 loans from each office location for rescission only. Loan documentation platform and procedures unchanged since the prior examination, so APRs will not be calculated. <i>Repeat violation of §226.23 noted at one branch facility.</i>
Equal Credit Opportunity Act	YES	TT Significant violations noted LX involving improper collection of government monitoring information. CX – Due to past problems and procedural uniformity concerns, will review 2 loans from each facility. <i>Isolated violation at one branch facility. Discussed with appropriate personnel and management during exit meeting. Not included in ROE.</i> Substantive review at CX discussed in separate Fair Lending Memorandum
Fair Housing Act	YES	NO No violations noted at LX. <i>Substantive review at CX discussed in separate Fair Lending Memorandum.</i>
Home Mortgage Disclosure Act	N/A	N/A HMDA is not applicable.
Flood Insurance	YES	TT Significant violations noted at LX. CX - Due to past problems, procedural uniformity concerns, and the existence of SFHAs within trade areas, will review all loans in flood hazard areas. <i>Violations noted for lack of insurance and for problems with the required notices. Not a pattern or practice; CMPs not recommended.</i>
Real Estate Settlement Procedures Act	YES	NO No violations noted at LX. At CX, review of CMS, lending procedures and documentation, discussions with lending staff indicated proper understanding of requirements, good controls. No reason to test.
Homeownership Counseling	NO	NO <i>Discussion with management indicated that loan officers were unaware that the notification requirements had been re-instated. Management admits that a violation has occurred. Transaction testing unnecessary.</i>
Homeowners Protection Act	N/A	N/A Bank does not currently offer PMI and does not plan to start.

AREA	Testing (No/TT/SC)		Comments
	LX	CX	
Preservation of Consumer Claims and Defenses	N/A	N/A	Bank does not purchase dealer paper
Credit Practices Rule	YES	SC	No violations noted at LX. At CX reviewed sample loan forms. No reasons found to test.
Fair Debt Collection Practices Act	N/A	N/A	Bank does collect debt for others.
Consumer Leasing	N/A	N/A	Bank does not engage in consumer leasing.

DEPOSITS			
Truth In Savings	YES	SC	No violations noted at LX. Procedural uniformity concerns and lack of monitoring or audit resulted in minimal sampling. <b><i>No violations found.</i></b>
Electronic Funds Transfer	YES	SC	Significant violations noted at LX. CX – Bank has adequately addressed most prior violations, but discussions with Cashier revealed some confusion about error resolution procedures. <b><i>A sample of 5 error resolutions revealed 1 isolated violation. Discussed with appropriate personnel and management. Not included in ROE.</i></b>
Expedited Funds Availability, including Check 21	YES	SC	Minor violations noted at LX. CX – EIC has high comfort level after pre-exam and CMS discussions that correction was made. Implementation of Check 21 requirements reviewed; <b><i>customer files spot-checked. No reason found to conduct further testing.</i></b>
Interest on Deposits	YES	NO	No violations noted at LX. Bank policy and customer literature accurately state rule; staff have proper understanding. No reasons found at CX to test.

OTHER PRODUCTS			
Retail Insurance/Annuities Sales	N/A	SC	New area of review since LX. Limited insurance sales. <b><i>See ES.</i></b>
Retail Investment Sales	N/A	N/A	Bank does not sell investment directly or indirectly.
Government Securities	N/A	N/A	Bank does not hold government securities or make them available to customers.

PRIVACY/CONSUMER INFORMATION/GENERAL REQUIREMENTS			
Right to Financial Privacy Act	NO	NO	No violations noted at LX. Bank has received no requests from the government for customer information. No reasons found at CX to test.
Privacy of Consumer Financial Info	N/A	YES	New Regulation since LX. Interagency Privacy Examination Procedures will be followed. <b><i>See ES.</i></b>
Fair Credit Reporting	YES	NO	No violations noted at LX. At CX, review of CMS, discussions with staff indicated knowledge of requirements, appropriate controls. No reasons to test.

Children's On-line Privacy Protection	N/A	N/A	Bank does not have any electronic materials directed at children; website does not collection information.
CAN SPAM	NO	TT	New regulation since last examination. Level of testing determined by examination procedures. <i>See ES.</i>
Telephone Consumer Protection	NO	TT	New regulation since last examination. Level of testing determined by examination procedures. <i>See ES.</i>
Electronic Banking, including E-Sign	N/A	SC	Bank has information-only website.
Advertising of Membership	YES	NO	No violations noted at LX.
Unfair or Deceptive Acts or Practices	NO	NO	No complaints, no high risk products or activities.

COMMUNITY REINVESTMENT ACT			
CRA Technical Requirements	NO	TT	Will be reviewed as part of the CRA evaluation. <i>No problems found. See PE.</i>
Branch Closings	NO	NO	Bank has a branch-closing policy and has not closed any branches.
Interstate Banking and Branching	N/A	N/A	Bank does not have IBBEA issues.

